

CITY OF MCGREGOR

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2008

**CITY OF MCGREGOR
MCGREGOR, IOWA**

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CITY OF MCGREGOR
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2008)		
Harold Brooks	Mayor	Jan. 2008
Roger Knott	Mayor Pro tem	Jan. 2010
Joe Muehlbauer	Council Member	Jan. 2008
Margaret Flansch	Council Member	Jan. 2008
Ryan Johnson	Council Member	Jan. 2010
Lynette Sander	Council Member	Resigned Aug. 15, 2007
Gaylinda Hallberg	Council Member	
	(Appointed Aug. 15, 2007)	Nov. 2007
Jason Solberg	Council Member	
	(Elected Nov. 6, 2007)	Jan. 2010
Norman Lincoln	City Clerk	Indefinite
Beverly Towle	Treasurer	Indefinite
Michael Schuster	Attorney	Indefinite
(After December, 2007)		
Roger Knott	Mayor	Jan. 2010
Ryan Johnson	Mayor Pro tem	Jan. 2010
Jason Solberg	Council Member	Jan. 2010
Gaylinda Hallberg	Council Member	
	(Appointed Jan. 16, 2008)	Jan. 2010
Joe Muehlbauer	Council Member	Jan. 2012
Rogeta Halvorson	Council Member	Jan. 2012
Norman Lincoln	City Clerk	Indefinite
Mary Wirkler	Treasurer	Indefinite
Michael Schuster	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of McGregor, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of McGregor's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2007.

The financial statements do not include financial data for the City's legally separate component unit, McGregor Municipal Utilities. The basis of accounting described in Note 1 requires the financial data for that component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure

from the basis of accounting described in Note 1, the cash basis net assets, receipts, and disbursements of the discretely presented component unit would have been presented as \$ 254,872, \$ 918,635 and \$ 919,142, respectively.

In our opinion, because of the omission of the discretely presented component unit as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the cash basis financial position of the discretely presented component unit of the City of McGregor as of June 30, 2008, or the changes in cash basis financial position thereof for the year then ended.

Further, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2007, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of McGregor as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2008 on our consideration of the City of McGregor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of McGregor's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund

of the cash balances at July 1, 2007, as it relates to Schedule 1 and 2, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

December 30, 2008

Dietz, Donald & Company

Dietz, Donald & Company, CPAs
FEIN 42-1172392

City of McGregor

'The Original Switzerland of America'



'Pocket City'



P.O. Box E
'On The Mississippi', McGregor, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of McGregor provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind that Chapter 11 of the Code of Iowa does not require cities with a population of less than 2000 to have an annual audit. The last audit the City of McGregor had performed was for the fiscal year ended June 30, 2004, therefore, any financial information presented herein for the fiscal year ended June 30, 2007 has not been audited.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 113%, or approximately \$ 895,000, from fiscal 2007 to fiscal 2008. Operating grants, contributions and restricted interest increased approximately \$ 163,000, while capital grants, contributions and restricted interest increased approximately \$ 178,000. In addition, bond proceeds totaled over \$ 593,000 in 2008.
- Disbursements of the City's governmental activities increased 44.1% or approximately \$ 336,000, in fiscal 2008 from fiscal 2007. Public safety, community and economic development, and capital projects disbursements increased approximately \$ 44,000, \$183,000 and \$ 112,000, respectively.
- The City's total cash basis net assets increased nearly 29.8%, or approximately \$ 505,000 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$ 589,000 while the assets of the business type activities decreased approximately \$84,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's long-term debt.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the sanitary sewer system, the solid waste collection system, the municipal docks and the storm sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the Special Revenue Funds, such as Library Trust, Road Use Tax and Urban Renewal Tax Increment, [c] the Debt Service Fund and, [d] the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.
2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the storm water, sewer, solid waste and dock funds. The former two are considered to be major funds of the City. The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$ 958,000 to \$ 1.547 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Years Ended June 30,	
	2008	2007
Receipts		
Program receipts		
Charges for service	\$ 100	130
Operating grants, contributions, and restricted		
Interest	244	127
Capital grants, contributions, and restricted		
Interest	178	-
General receipts		
Property tax	470	443

Local option sales tax and hotel/motel tax	88	81
Unrestricted interest on investments	14	12
Bond proceeds	593	-
Other general receipts	<u>2</u>	<u>1</u>
Total receipts	<u>1,689</u>	<u>794</u>
Disbursements		
Public safety	141	97
Public works	143	131
Culture and recreation	80	91
Community and economic development	231	48
General government	146	132
Debt service	177	197
Capital projects	<u>179</u>	<u>67</u>
Total disbursements	<u>1,097</u>	<u>763</u>
Change in cash basis net assets before transfers	592	31
Transfers, net	<u>[3]</u>	<u>-</u>
Change in cash basis net assets	589	31
Cash basis net assets beginning of year	<u>958</u>	<u>927</u>
Cash basis net assets end of year	<u>\$ 1,547</u>	<u>958</u>

The City's total receipts for governmental activities increased 113% or approximately \$ 895,000. The total cost of all programs and services increased approximately \$ 336,000, or 44.1%.

The cost of all governmental activities this year was \$ 1.097 million compared to \$ 763,000 last year. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$ 576,000 because some of the cost was paid by those directly benefited from the programs (\$ 100,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 422,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service increased in 2008 from approximately \$ 257,000 to approximately \$ 522,000, principally due to receiving a Department of Transportation grant. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 558,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest, bond proceeds and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2008	2007
Receipts		
Program receipts		
Charges for service		
Sewer	\$ 106	116
Storm water	30	31
Solid waste	53	53
Docks	1	-
Capital grants, contributions and restricted interest	48	224
General receipts		
Unrestricted interest on investments	5	4
Bond proceeds	-	303
Miscellaneous	12	-
Total receipts	<u>255</u>	<u>731</u>
Disbursements		
Sewer	142	599
Storm water	145	22
Solid waste	54	53
Docks	<u>1</u>	<u>1</u>
Total disbursements	<u>342</u>	<u>675</u>
Change in cash basis net assets before transfers	(87)	56
Transfers, net	<u>3</u>	<u>-</u>
Change in cash basis net assets	(84)	56
Cash basis net assets beginning of year	<u>230</u>	<u>174</u>
Cash basis net assets end of year	<u>\$ 146</u>	<u>230</u>

Total business type activities receipts for the fiscal year were \$ 255,000 compared to \$ 731,000 last year. The cash balance decreased approximately \$ 84,000 from the prior year. Total disbursements for the fiscal year decreased 49.3% to a total of approximately \$ 342,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of McGregor completed the year, its governmental funds reported a combined

fund balance of \$ 1,547,391, an increase of \$ 589,248 over last year's total of \$ 958,143. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$ 57,864 from the prior year to \$ 600,537, due in part to receiving \$ 15,000 from Marquette for library services and \$ 16,000 in other gifts..
- The Special Revenue, Library Trust Fund was established in 1972 to account for a bequest left to the City Library. The Trust investments have a cost basis of \$ 156,496 and a fair market value of \$ 173,118 at June 30, 2008.
- The Debt Service Fund cash balance increased \$ 4,120 to \$ 54,295 during the fiscal year. Total principal payments were \$ 155,000 and interest payments were \$ 36,315 for the year. Of these totals, \$ 16,000 was paid by the Enterprise, Storm water Fund.
- The Capital Projects, Ridgewood West is to account for cost of development in the Ridgewood West subdivision. The major activity in 2008 was the receipt of \$ 593,252 of bond proceeds, leaving a year end cash balance of \$ 675,818.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Sewer Fund cash balance decreased \$ 31,469 to \$ 98,050, due primarily to debt service requirements of \$ 39,067.

The Storm water Fund cash balance decreased \$ 54,637 to \$ 30,323, due primarily to disbursements exceeding receipts for a storm sewer capital project by \$ 73,694.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment was approved May 28, 2008 and resulted in an increase in operating disbursements of \$ 267,477 and capital projects disbursements of \$ 300,000.

The City exceeded the amounts budgeted in the community and economic development, general government and business type activities functions.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$ 1,655,000 in bonds and notes outstanding, compared to \$ 1,225,000 last year, as shown below. In addition, the City is committed to \$ 390,000 in developer tax rebates over the next sixteen years.

Outstanding Debt at Year-End
(Expressed in Thousands)

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
General Obligation Bonds	\$ 865	285
General Obligation Notes	405	535
Revenue notes	<u>385</u>	<u>405</u>
Total	<u>\$ 1,655</u>	<u>1,225</u>

Debt increased as a result of issuing \$ 605,000 of general obligation bonds

The Constitution of the State of Iowa limit's the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1.660 million is below its constitutional debt limit of \$ 2.187 million..

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of McGregor's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. One of those factors is City growth. As is typical with most communities in Clayton County, the City has experienced a decline in population. Official population over the last 30 years has decreased 12% to 871.

However, with an abundance of receipts in the Urban Renewal District, the TIF Fund will continue development projects in the Ohmer property. Regular taxable valuations increased approximately 4.2% or \$ 917,000.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$ 1.989 million, a decrease of 28% from the final fiscal 2008 budget. Decrease in G.O. bond proceeds of \$ 605,000 accounted for most of the decrease. Budgeted disbursements decreased by \$ 651,000. The City has added no major new programs to the 2009 budget. Tax rates have increased only .27%, but with the increase in valuations, property taxes will increase nearly \$ 14,000. If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 70,000 by the close of 2009.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact City Hall at 416 Main Street; P.O. Box E; McGregor, Iowa 52157 or call 563/873-3795.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF MCGREGOR
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2008

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 141,279	25,377	11,787	-	(104,115)	-	(104,115)
Public works	143,367	7,894	78,085	-	(57,388)	-	(57,388)
Culture and recreation	79,982	42,678	35,801	-	(1,503)	-	(1,503)
Community and economic development	231,127	-	103,561	-	(127,566)	-	(127,566)
General government	146,186	11,604	14,932	-	(119,650)	-	(119,650)
Debt service	176,914	12,039	-	-	(164,875)	-	(164,875)
Capital projects	178,676	-	-	178,229	(447)	-	(447)
Total governmental activities	1,097,531	99,592	244,166	178,229	(575,544)	-	(575,544)
Business type activities:							
Sewer	141,819	105,589	-	-	(36,230)	(36,230)	(72,469)
Storm water	144,959	29,960	-	48,538	(66,441)	(66,441)	(132,882)
Solid waste	53,867	52,924	-	-	(943)	(943)	(1,886)
Docks	966	1,365	-	-	399	399	399
Total business type activities	341,611	189,838	-	48,538	(575,544)	(103,215)	(103,215)
Total	\$ 1,439,142	289,430	244,166	226,767	(575,544)	(103,215)	(678,759)
General Receipts:							
Property and other city tax levied for:							
General purposes					278,903	-	278,903
Tax increment financing					141,974	-	141,974
Debt service					48,831	-	48,831
Local option sales tax					60,863	-	60,863
Hotel/motel tax					27,459	-	27,459
Unrestricted interest on investments					14,053	5,054	19,107
Bond proceeds					593,252	-	593,252
Miscellaneous					1,957	11,804	13,761
Transfers					(2,500)	2,500	-
Total general receipts and transfers					1,164,792	19,358	1,184,150
Change in cash basis net assets					589,268	(83,857)	505,391
Cash basis net assets beginning of year					958,143	229,728	1,187,871
Cash basis net assets end of year					\$ 1,547,391	145,871	1,693,262
Cash Basis Net Assets							
Restricted:							
Streets					56,720	-	56,720
Library					156,496	-	156,496
Debt service					54,295	38,500	92,795
Ridgewood West					675,818	-	675,818
Other purposes					14,281	-	14,281
Unrestricted					589,781	107,371	697,152
Total cash basis net assets					\$ 1,547,391	145,871	1,693,262

See notes to financial statements.

CITY OF McGRICK
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2008

Exhibit B

	General	Special Revenue Library Trust	Debt Service	Capital Projects Kiddwood West	Nonmajor	Total
Receipts:						
Property taxes	\$ 202,794	-	48,831	-	66,381	318,006
Tax increment financing	-	-	-	-	141,974	141,974
Other city tax	98,050	-	-	-	-	98,050
Licenses and permits	4,400	-	-	-	-	4,400
Use of money and property	24,222	16,200	-	3,561	78,085	43,983
Intergovernmental	238,868	-	-	-	-	316,953
Charges for service	4,976	-	12,039	-	-	12,039
Special assessments	-	-	-	-	-	-
Miscellaneous	155,646	-	-	-	-	155,646
Total receipts	728,956	16,200	60,870	3,561	286,440	1,096,027
Disbursements:						
Operating:						
Public safety	114,308	-	-	-	26,971	141,279
Public works	40,703	-	-	-	102,664	143,367
Culture and recreation	78,255	1,727	-	-	-	79,982
Community and economic development	169,241	-	-	34,984	26,902	231,127
General government	105,198	-	-	-	40,988	146,186
Debt service	-	-	176,914	-	-	176,914
Capital projects	178,676	-	-	-	-	178,676
Total disbursements	686,381	1,727	176,914	34,984	197,525	1,097,531
Excess (deficiency) of receipts over (under) disbursements	42,575	14,473	(116,044)	(31,423)	88,915	(1,504)
Other financing sources (uses):						
Bond proceeds	-	-	-	593,252	-	593,252
Operating transfers in	17,789	-	120,164	22,446	-	160,399
Operating transfers out	(2,500)	(12,250)	-	-	(148,149)	(162,899)
Total other financing sources (uses):	15,289	(12,250)	120,164	615,698	(148,149)	590,752
Net change in cash balances	57,864	2,223	4,120	584,275	(59,234)	589,246
Cash balances beginning of year	542,673	156,273	50,175	91,543	119,479	958,143
Cash balances end of year	\$ 600,537	156,496	54,295	675,818	60,245	1,547,391
Cash Basis Fund Balances						
Reserved for debt service	\$ -	-	54,295	-	-	54,295
Unreserved:						
General fund	600,537	-	-	-	-	600,537
Special revenue funds	-	156,496	-	-	60,245	216,741
Capital projects fund	-	-	-	675,818	-	675,818
Total	\$ 600,537	156,496	54,295	675,818	60,245	1,547,391

See notes to financial statements.

CITY OF MCGREGOR
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2008

	Enterprise			
	Sewer	Storm Water	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 105,589	29,960	54,289	189,838
Operating disbursements:				
Business type activities	102,752	6,707	54,833	164,292
Excess (deficiency) of operating receipts over (under) operating disbursements	2,837	23,253	(544)	25,546
Non-operating receipts (disbursements):				
Intergovernmental	-	48,558	-	48,558
Interest on investments	4,761	-	293	5,054
Miscellaneous	-	11,804	-	11,804
Debt service	(39,067)	(16,000)	-	(55,067)
Capital projects	-	(122,252)	-	(122,252)
Net non-operating receipts (disbursements)	(34,306)	(77,890)	293	(111,903)
Deficiency of receipts under disbursements	(31,469)	(54,637)	(251)	(86,357)
Operating transfers in	-	-	2,500	2,500
Net change in cash balances	(31,469)	(54,637)	2,249	(83,857)
Cash balances beginning of year	129,519	84,960	15,249	229,728
Cash balances end of year	\$ 98,050	30,323	17,498	145,871
Cash Basis Fund Balances				
Reserved for debt service	\$ 38,500	-	-	38,500
Unreserved	59,550	30,323	17,498	107,371
Total cash basis fund balances	\$ 98,050	30,323	17,498	145,871

See notes to financial statements.

CITY OF MCGREGOR

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The City of McGregor is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1846 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer, storm water and solid waste services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of McGregor, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and [1] the ability of the City to impose its will on that organization or [2] the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria. However, the financial statements for McGregor Municipal Utilities have not been included with these financial statements. McGregor Municipal Utilities last issued a publicly available financial report that included financial statements and required supplementary information for the fiscal year ended June 30, 2007. That report may be obtained by writing to: McGregor Municipal Utilities; 126 First Street; McGregor, Iowa 52157.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the following boards and commissions: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and the Mar-Mac Unified Law Enforcement District. As described in Note 7, the City's participation in the Mar-Mac Unified Law

Enforcement District meets the criteria of a joint venture since there is an ongoing financial responsibility for the City.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City, except for McGregor Municipal Utilities. For the most part, the effect of interfund activities has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1] charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2] grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds. All remaining proprietary funds are aggregated and reported as non-major proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the

general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Library Trust Fund is used to account for a 1972 bequest left to the McGregor Public Library.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Storm Water Fund accounts for the operation and maintenance of the City's storm water collection and drainage system.

C. Measurement Focus and Basis of Accounting

The City of McGregor maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development, general government and business type activities functions.

(2) Cash and Pooled Investments

At year end, the City's carrying amount of deposits was \$ 1,536,764 and the bank balance was \$ 1,540,900. The City's deposits in banks at June 30, 2008, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the City had the following investments:

Type	Carrying Amount	Fair Value
Federal Home Loan Bank	\$ 30,229	30,564
Schwab Money Market Fund	35,382	35,382
Corporate Stocks	<u>75,884</u>	<u>92,148</u>
Total	<u>\$ 141,495</u>	<u>158,094</u>

The City has one certificate of deposit held in a depository outside the State of Iowa.

Interest rate risk - The City's investment policy limit's the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the need and use of the City. At June 30, 2008, maturities of City investments ranged from 46 days to 423 days.

Credit risk - The City's investments in corporate stock are subject to market fluctuations and may be in violation of the Code of Iowa. The City's investment in the Schwab Money Market Fund is unrated.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and bonds and revenue notes are as follows:

Year	General Obligation		General Obligation		Revenue		Total	
Ending	Notes		Bonds		Notes			
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 115,000	18,213	50,000	31,378	25,000	18,028	190,000	67,619
2010	70,000	12,810	95,000	29,632	25,000	17,152	190,000	59,594
2011	70,000	9,870	100,000	26,582	25,000	16,215	195,000	52,667
2012	75,000	6,825	100,000	23,238	25,000	15,215	200,000	45,278
2013	75,000	3,450	105,000	19,772	25,000	14,165	205,000	37,387
2014-18	0	0	415,000	38,638	155,000	51,270	570,000	89,908
2019-21	0	0	0	0	105,000	11,200	105,000	11,200
Total	\$ 405,000	51,168	865,000	169,240	385,000	143,245	1,655,000	363,653

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$ 16,000 of general obligation bond principal was paid from the Enterprise, Storm Water Fund.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$ 485,000 in sewer refunding revenue notes issued in August 2003. Proceeds from the notes provided financing to advance refund the sewer revenue bonds issued May 1990. The notes are payable from sewer customer net receipts and are payable through 2021. The total principal and interest remaining to be paid on the notes is \$ 528,245. For the current year, principal and interest paid and total customer net receipts were \$ 38,668 and \$ 2,837, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

A] Notes maturing on or after June 1, 2013 may be called for redemption by the City and paid before maturity on said date or any date thereafter, from any funds, regardless of source in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at par plus accrued interest to date of call.

B] Sufficient monthly transfers shall be made to a sewer revenue sinking account within the Enterprise Fund for the purpose of making note principal and interest payments when due.

C] The notes are secured by the principal and interest reserve account. So long as any notes are outstanding, the City is required to maintain an amount on deposit in the reserve account equal to the lesser of 1] the sum of 10% of the principal amount of the notes; 2] 125% of the average annual debt service on such notes; or 3] the maximum annual debt service on such notes.

4) Development Agreements

The City has entered into agreements with three different developers at June 30, 2008.

With the first, the City has agreed to rebate 60% of the incremental tax paid by the Developer in exchange for the construction of a commercial facility in the McGregor Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the Developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year beginning December 1, 2008 and continuing through and including June 1, 2018, or until such earlier date upon which total payments in the amount of \$ 100,000 have been made.

With the second, the City has agreed to rebate 60% of the incremental tax paid by the Developer, in exchange for the construction of an assisted living facility in the McGregor Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the Developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year beginning December 1, 2009 and continuing through and including June 1, 2019 or until such earlier date upon which total payments in the amount of \$ 90,000 have been made.

With the third, the City has agreed to rebate 50% of the incremental tax paid by the Developer in exchange for the development of a new commercial restaurant/microbrewery in the McGregor Downtown Urban Renewal Area. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated in accordance with Chapter 15A of the Code of Iowa. Accordingly, rebate payments will be made on December 1 and June 1 of each fiscal year beginning December 1, 2009 and continuing through June 1, 2024 or until such earlier date upon which total payments in the amount of \$ 200,000 have been made.

The total maximum liability under these agreements is \$ 390,000.

5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan

administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$ 10,109, equal to the required contribution for the year.

6) Compensated Absences

City employees accumulate earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. Sick leave accumulates but is not payable upon termination, retirement or death with certain exceptions. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time leave termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 12,000
Sick leave	5,000
Comp time	<u>3,000</u>
Total	<u>\$ 20,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

7) Joint Venture

The City participates in a joint law enforcement district known as Mar-Mac Unified Law Enforcement District, which provides police protection and law enforcement services to its participants. The District was created and operates under Chapter 28E of the Code of Iowa. The District is governed by a five member board, two of whom are appointed by the Mayor of McGregor subject to approval by a majority vote of the City Council. In accordance with the 28E Agreement creating the District, the City shall appropriate and pay to the District each fiscal year a sum equal to 35% of the District's budget for the year. The City shall pay to the District one-fourth of the City's share of the budget amount on or before July 10, October 10, January 10, and April 10 each year. The City's share of the District's budget for the fiscal year ended June 30, 2008, was \$ 82,341.

The City's share of the District's budget for the fiscal year ended June 30, 2009 will be approximately \$ 83,000. The Mar-Mac Unified Law Enforcement District issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: Mar-Mac Police District; P.O. Box 340; McGregor, Iowa 52157-0304.

8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Library Trust	\$ 12,250
	Employee Benefits	<u>5,539</u>
		17,789
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	120,164
Capital Projects:	Special Revenue:	
Ridgewood West	Urban Renewal Tax Increment	22,446
Enterprise:		
Docks	General	<u>2,500</u>
Total		<u>\$ 162,899</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 3,401 for the year ended June 30, 2008.

The City had the following transactions with its component unit, McGregor Municipal Utilities:

Receipts:	
Sewer receipts	\$ 105,590
Solid waster receipts	52,121
Storm sewer receipts	27,172
Street lighting refund	11,787
LP	<u>1,749</u>
Other	<u>25</u>

Total	<u>\$ 198,444</u>
Disbursements:	
Utility payments	\$ 37,743
Other	<u>2,455</u>
Total	<u>\$ 40,198</u>

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks exceeded commercial insurance coverage by over \$ 36,000 as a result of flooding in July, 2007

(11) Contingencies

On February 1, 2001, the City entered into a street usage and maintenance agreement with Agri, Inc. Under the terms of the agreement, the City received a one-time maintenance fee of \$ 250,000. In addition, the City will receive an annual maintenance fee of \$ 4,000 on July 1 of each year until July 1, 2030. In exchange, the City agrees to not close any portion of B Street, from its intersection with Main Street to the Agri Grain Elevator facility to truck traffic (except temporary closures of 120 days or less where an alternate truck route is provided), to not impose weight restrictions or turning restrictions on the B Street Improvement Area that would materially interfere with operations at the Agri Grain Elevator Facility.

In the event Agri, Inc. terminates the agreement, the City may retain all payments received under the agreement. If the City fails to meet the terms of the agreement, the City is required to pay a termination fee calculated as follows. If the termination occurs within the first five years, the termination fee shall be \$ 250,000. Thereafter, the termination fee shall reduce each year by \$ 10,000. At June 30, 2008, the City is contingently liable for \$ 220,000.

(12) Deficit Fund Balance

The Special Revenue Urban Renewal Tax Increment Fund had a deficit balance of \$ 10,756 at June 30, 2008. The deficit balance was a result of urban renewal project costs being incurred prior to availability of funds.

(13) Non-cash Transactions

An area hospital contributed the property at 626 Main Street to the City in January, 2008 to be used as a day care facility. The City has entered into a 28E with the local school district to operate a day care facility and preschool at that location. The City will insure the building and pay half of the utilities. Utility costs through June 30, 2008 were \$ 808.

(14) Commitments

In April, 2008, the City entered into two construction contracts totaling \$ 371, 877 for work in the Ridgewood West subdivision. The City issued \$ 605,000 of general obligation bonds to finance the project.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MCGREGOR
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2008

	Governmental Funds		Proprietary Funds		Total		Budgeted		Final to Total Variance
	Actual		Actual				Original	Final	
Receipts:									
Property tax	\$ 318,006	-	-	-	318,006	314,954	314,954	314,954	3,052
Tax increment financing	141,974	-	-	-	141,974	146,027	146,027	146,027	(4,053)
Other city tax	98,050	-	-	-	98,050	74,423	74,423	74,423	23,627
Licenses and permits	4,400	-	-	-	4,400	3,575	3,575	3,575	825
Use of money and property	43,983	5,054	-	-	49,037	80,676	80,676	80,676	(31,639)
Intergovernmental	316,953	48,558	-	-	365,511	329,670	378,228	378,228	(12,717)
Charges for service	4,976	1,108,474	-	-	1,113,450	980,260	1,033,360	1,033,360	80,090
Special assessments	12,039	-	-	-	12,039	8,000	8,000	8,000	4,039
Miscellaneous	155,646	11,804	-	-	167,450	19,239	134,099	134,099	33,351
Total receipts	1,096,027	1,173,890	2,269,917	1,956,824	2,173,342	2,173,342	2,173,342	2,173,342	96,575
Disbursements:									
Public safety	141,279	-	-	-	141,279	122,298	152,024	152,024	10,745
Public works	143,367	-	-	-	143,367	201,058	201,058	201,058	57,691
Culture and recreation	79,982	-	-	-	79,982	85,590	85,590	85,590	5,608
Community and economic development	231,127	-	-	-	231,127	48,000	148,000	148,000	(83,127)
General government	146,186	-	-	-	146,186	136,413	136,413	136,413	(9,773)
Debt service	176,914	-	-	-	176,914	176,915	176,915	176,915	1
Capital projects	178,676	-	-	-	178,676	280,862	580,862	580,862	402,186
Business type activities	-	1,260,754	-	-	1,260,754	951,500	1,089,251	1,089,251	(171,503)
Total disbursements	1,097,531	1,260,754	2,358,285	2,002,636	2,570,113	2,570,113	2,570,113	2,570,113	211,828
Excess (deficiency) of receipts over (under) disbursements	(1,504)	(86,864)	(88,368)	(45,812)	(396,771)	(396,771)	(396,771)	(396,771)	308,403
Other financing sources, net	590,752	2,500	593,252	-	585,000	585,000	585,000	585,000	8,252
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	589,248	(84,364)	504,884	(45,812)	188,229	(20,755)	(20,755)	(20,755)	316,655
Balances beginning of year	958,143	485,107	1,443,250	1,393,333	1,464,002	1,464,002	1,464,002	1,464,002	(20,755)
Balances end of year	\$ 1,547,391	400,743	1,948,134	1,347,521	1,652,231	295,903	295,903	295,903	295,903

See accompanying independent auditor's report and notes to required supplementary information.

CITY OF MCGREGOR
BUDGETARY COMPARISON SCHEDULE-ENTITY WIDE TO PRIMARY
GOVERNMENT RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION

	Proprietary Funds		
	City Entity- Wide	Less: Amounts for McGregor Municipal Utilities	City Primary Government
Receipts	\$ 1,173,890	(918,636)	255,254
Disbursements	1,260,754	(919,143)	341,611
Excess (deficiency) of receipts over (under) disbursements	(86,864)	507	(86,357)
Operating transfers in	2,500	-	2,500
Net change in cash balances	(84,364)	507	(83,857)
Cash balances beginning of year	485,107	(255,379)	229,728
Cash balances end of year	<u>\$ 400,743</u>	<u>(254,872)</u>	<u>145,871</u>

See accompanying independent auditor's report and notes
to required supplementary information.

CITY OF McGREGOR
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The City's budget includes its component unit, although the component unit has not been included in these financial statements.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Funds, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 567,477. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the community and economic development, general government and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF MCGREGOR
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2008

	Special Revenue				
	Road Use Tax	Urban Renewal Tax Increment	Employee Benefits	Emergency	Total
Receipts:					
Property tax	\$ -	-	58,628	7,753	66,381
Tax increment financing	-	141,974	-	-	141,974
Intergovernmental	78,085	-	-	-	78,085
Total receipts	78,085	141,974	58,628	7,753	286,440
Disbursements:					
Public safety	-	-	18,891	8,080	26,971
Public works	102,664	-	-	-	102,664
Community and economic development	-	26,902	-	-	26,902
General government	-	-	40,988	-	40,988
Total disbursements	102,664	26,902	59,879	8,080	197,525
Excess (deficiency) of receipts over (under) disbursements	(24,579)	115,072	(1,251)	(327)	88,915
Operating transfers out	-	(142,610)	(5,539)	-	(148,149)
Net change in cash balances	(24,579)	(27,538)	(6,790)	(327)	(59,234)
Cash balances beginning of year	81,299	16,782	20,014	1,384	119,479
Cash balances end of year	\$ 56,720	(10,756)	13,224	1,057	60,245
Cash Basis Fund Balances					
Unreserved:	\$ 56,720	(10,756)	13,224	1,057	60,245
Special revenue funds					

See accompanying independent auditor's report.

CITY OF MCGREGOR
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2008

	Enterprise		
	Solid Waste	Docks	Total
Operating receipts:			
Charges for service	\$ 52,924	1,365	54,289
Operating disbursements:			
Business type activities	53,867	966	54,833
Excess (deficiency) of operating receipts over (under) operating disbursements	(943)	399	(544)
Non-operating receipts:			
Interest on investments	-	293	293
Excess (deficiency) of receipts over (under) disbursements	(943)	692	(251)
Operating transfers in	-	2,500	2,500
Net change in cash balances	(943)	3,192	2,249
Cash balances beginning of year	3,726	11,523	15,249
Cash balances end of year	\$ 2,783	14,715	17,498

See accompanying independent auditor's report.

CITY OF MCGREGOR
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2008

Schedule 3

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Corporate purpose	Nov 1, 1993	5.60-5.75%	\$ 235,000	40,000	-	20,000	20,000	2,270
Street improvement	Oct 1, 1995	5.80	130,000	15,000	-	15,000	-	870
Corporate purpose	Jan 1, 2001	5.35-5.40	178,000	60,000	-	30,000	30,000	3,225
Corporate purpose	Oct 1, 2002	3.85-4.60	700,000	420,000	-	65,000	355,000	17,945
Total				\$ 535,000	-	130,000	405,000	24,310
General obligation bonds:								
Storm sewer	Sep 1, 2006	4.00-4.40%	\$ 310,000	285,000	-	25,000	260,000	12,005
Corporate purpose	May 15, 2008	2.65-3.90%	605,000	-	605,000	-	605,000	-
Total				\$ 285,000	605,000	25,000	865,000	12,005
Revenue notes:								
Sewer refunding	Aug 1, 2003	3.20-5.40%	\$ 485,000	405,000	-	20,000	385,000	18,668

See accompanying independent auditor's report.

CITY OF MCGRACKOR
BOND AND NOTE MATURITIES
June 30, 2008

Schedule 4

Year Ending June 30,	General Obligation Notes			General Obligation Notes		
	Corporate Purpose Issued Nov 1, 1993	Interest Rates	Amount	Corporate Purpose Issued Jan 1, 2001	Interest Rates	Amount
2009	5.75%		\$ 20,000	5.40%		\$ 30,000
2010	-		-	-		-
2011	-		-	-		-
2012	-		-	-		-
2013	-		-	-		-
Total			\$ 20,000			\$ 30,000

Year Ending June 30,	General Obligation Bonds			General Obligation Bonds		
	Skorn Sewer Issued Sep 1, 2006	Interest Rates	Amount	Corporate Purpose Issued May 15, 2008	Interest Rates	Amount
2009	4.05%		\$ 30,000	2.65%		\$ 20,000
2010	4.10		30,000	2.80		65,000
2011	4.15		30,000	3.00		70,000
2012	4.20		30,000	3.15		70,000
2013	4.25		35,000	3.30		70,000
2014	4.30		35,000	3.45		75,000
2015	4.35		35,000	3.60		75,000
2016	4.40		35,000	3.75		80,000
2017	-		-	3.90		80,000
2018	-		-	-		-
2019	-		-	-		-
2020	-		-	-		-
2021	-		-	-		-
Total			\$ 260,000			\$ 605,000

Year Ending June 30,	Revenue Notes			Revenue Notes		
	Sewer Refunding Issued Aug 1, 2003	Interest Rates	Amount	Sewer Refunding Issued Aug 1, 2003	Interest Rates	Amount
2009	3.50%		\$ 25,000	3.50%		\$ 25,000
2010	3.75		25,000	3.75		25,000
2011	4.00		25,000	4.00		25,000
2012	4.20		25,000	4.20		25,000
2013	4.40		30,000	4.40		30,000
2014	4.55		30,000	4.55		30,000
2015	4.65		30,000	4.65		30,000
2016	4.85		30,000	4.85		30,000
2017	5.00		30,000	5.00		30,000
2018	5.10		35,000	5.10		35,000
2019	5.20		35,000	5.20		35,000
2020	5.30		35,000	5.30		35,000
2021	5.40		35,000	5.40		35,000
Total			\$ 385,000			\$ 385,000

See accompanying independent auditor's report.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of McGregor, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents and have issued our report thereon dated December 30, 2008. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed an adverse opinion since the financial statements do not include financial data for the City's legally separate component unit. However, we expressed qualified opinion on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information, since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of McGregor's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of McGregor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of McGregor's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal

control over financial reporting that we consider to be a significant deficiency, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of McGregor's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of McGregor's financial statements that is more than inconsequential will not be prevented or detected by the City of McGregor's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of McGregor's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe significant deficiency I-A-08 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McGregor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal

matters are not intended to constitute legal interpretations of those statutes.

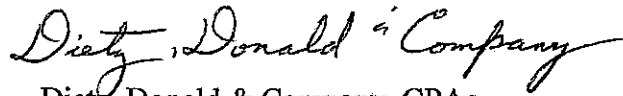
The City of McGregor's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of McGregor's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of McGregor and other parties to whom the City of McGregor may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of McGregor during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

December 30, 2008


Dietz, Donald & Company, CPAs
FEIN 42-1172392

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following:

- [1] Review the adequacy of financial statement disclosures.
- [2] Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.
- [3] Apply analytical procedures to the draft financial statements.
- [4] Apply other procedures as considered necessary by the City.

Response - We will consider this.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF MCGREGOR
SCHEDULE OF FINDINGS
Year Ended June 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the community and economic development, general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - Although the budget was amended, the budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed budget.

Response - In the future, we will amend the budget in compliance with the Code of Iowa.

Conclusion - Response accepted.

II-B-08 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-08 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gaylinda Hallberg, Council Member, Employee of Kwik Trip	Fuel	\$ 1,032
Joe Muehlbauer, Council Member, Employee of Carquest Auto Parts	Repair parts	3,270

In accordance with Chapter 362.5(11), the transactions with Kwik Trip do not appear to represent a conflict of interest since total transactions with the business were less than \$ 2,500 during the year. However, the transactions

with Carquest Auto Parts may represent a conflict of interest as the transactions do not appear to meet any of the safe harbor provisions of Chapter 362.5

Recommendation - The City should consult legal counsel to determine disposition of this matter.

Response - We will follow up on this matter.

Conclusion - Response accepted.

II-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

II-F-08 Council Minutes - Although the notice of public hearing was published, passage of the amendment of the current city budget was not noted in the Council minutes.

Recommendation - The City should comply with Chapter 384.18 of the Code of Iowa. After having a budget hearing, the council shall adopt by resolution a budget amendment for the current fiscal year.

Response - We will do this in the future.

Conclusion - Response accepted.

II-G-08 Deposits and Investments - The Library Board has invested trust fund money in a certificate of deposit held in a depository outside the state. Chapter 12C of the Code of Iowa requires City deposits to be held in depositories located in the county in which the City is located or in an adjoining county, but if there is no depository in the county in which the City is located or in an adjoining county, then in any depository located in this state which shall be selected as a depository by the city council. In addition, the Library Board has invested funds in common stocks. Chapter 12B.10(5) does not include common stocks in its list of allowable investments for political subdivisions of the state.

Recommendation - The City should only make investments allowed by the Code of Iowa.

Response - The City Council will inform the Library Board as to what investments are allowable per the Code of Iowa.

Conclusion - Response accepted.

II-H-08 Revenue Notes - No instances of non-compliance with the revenue note resolutions were noted.

II-I-08 Payment of General Obligation Bonds - Certain general obligation bonds were paid from the Enterprise, Storm Water Fund. Chapter 384.4 of the Code of Iowa states, in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation - The City should transfer from the Enterprise, Storm Water Fund to the Debt Service Fund for future funding contributions.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

II-J-08 Financial Condition - The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance at June 30, 2008 of \$ 10,756.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit was due to construction costs incurred prior to receipt of tax increment financing collections from the County Treasurer in October. The deficit was subsequently eliminated.

Conclusion - Response accepted.

II-K-08 Local Option Sales Tax and Hotel/Motel Tax Receipts - The local option sales tax and hotel/motel tax receipts are deposited directly to the General Fund. The 1989 resolution establishing the local option sales tax calls for 50% of the receipts to be used for street improvements and 50% of the receipts to be used for economic development. The 2002 resolution establishing the hotel/motel tax calls for 66 2/3% of the receipts to be used for the acquisition of sites for, or constructing, improving, enlarging, equipping, repairing, operating, or maintaining recreational, convention, cultural or entertainment facilities, including, but not limited to, memorial buildings, halls and monuments, civic centers, convention buildings, auditoriums, coliseums and parking areas or facilities located at these recreational, convention, cultural or entertainment facilities, or the payment of principal and interest on bonds or other evidence of indebtedness issued by the City for those recreational, convention, cultural or entertainment facilities, or for the promotion and encouragement of tourist and convention business in the City and surrounding areas. The remaining receipts may be

spent by the City for any lawful purpose for which receipts derived from ad valorem taxes may be disbursed. Since the receipts from these local option taxes are deposited in the General Fund, the City cannot guarantee that these taxes are being disbursed in accordance with voter wishes.

Recommendation - The City should establish special revenue funds for these two taxes and make disbursements and transfers from those funds in accordance with the resolutions establishing those taxes.

Response - The City will investigate this.

Conclusion - Response acknowledged.